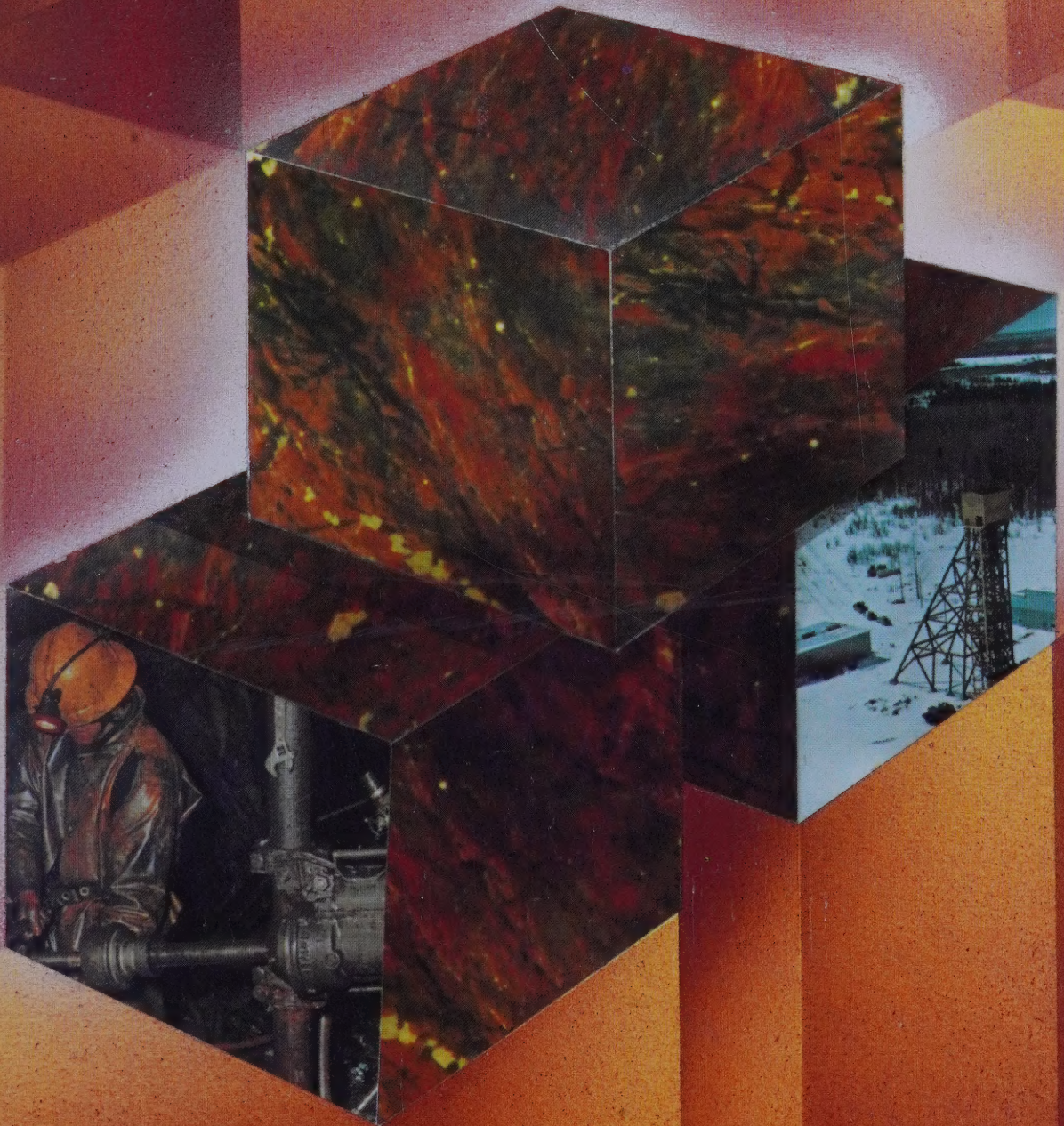


AR37

Annual Report 1980



Quebec
Sturgeon River
mines limited

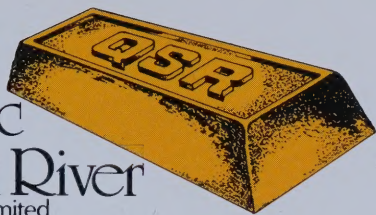


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Our 1980 Cover Design

The cubes on the front cover show typical specimens of the gold bearing rock from the Bachelor Lake Gold Mine, cut, ground and enlarged about four-fold by photography. The quartz occurs as the thin white threads and stringers, the hematite (an iron-rich oxide) imparts the deep red colouration, and the pyrite, a metallic sulphide of iron crystallized out along similar minor fractures, as veinlets and crystalline blebs.



BOARD OF DIRECTORS

Harold P. Coplan, Ottawa, Ontario
*Business Executive,
President of Québec Sturgeon River Mines Limited*

Michael L. Levinson, New York, N.Y.
Stock Broker

James H. Morlock, Q.C., Toronto, Ontario
Barrister and Solicitor

Orville A. Seeber, Sydenham, Ontario
Consulting Geologist

H. D. Lee Snelling, Ottawa, Ontario
President, Prestech Associated Limited

EXECUTIVE AND HEAD OFFICE

166 Pearl Street
Toronto, Ontario M5H 1L3

AUDITORS

Jarrett, Goold & Elliott,
Chartered Accountants,
Toronto, Ontario

BANKERS

The Bank of Nova Scotia,
King & Victoria Branch,
Toronto, Ontario

OFFICERS

Harold P. Coplan — *President and Chief Executive Officer*

Orville A. Seeber — *Vice-President of Exploration*

G. Warren Armstrong — *Secretary*

James H. Morlock, Q.C. — *Assistant Secretary*

W. Kenneth Sandham, C.A. — *Treasurer*

SOLICITORS

Morlock and Associates,
Toronto, Ontario

TRANSFER AGENT AND REGISTRAR

Crown Trust Company,
P.O. Box 38,
1 First Canadian Place,
Toronto, Canada M5X 1G4

TECHNICAL STAFF

O. A. Seeber, B.A., P.Eng. — *Vice-President of Exploration*

Harry Michie, B.Sc., P.Eng. — *Chief Geologist*

Percy J. McCarthy, Mining Eng. — *Manager of Mines*

Douglas Bryant, B.Sc., P.Eng. — *Geologist*

SHARE LISTING

The Toronto Stock Exchange
Ticker Symbol "QSR"

ANNUAL MEETING OF SHAREHOLDERS

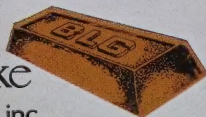
Friday, 26th June, 1981 at 2:00 p.m.,
Kensington Room,
King Edward Hotel
37 King Street East
Toronto, Ontario

LOCATION MAP OF MAIN PROPERTY

Bachelor Lake, Lesueur Township, Quebec



Bachelor Lake
Gold Mines inc.



REPORT OF THE DIRECTORS

The Board of Directors is pleased to present the 47th Annual Report of the Corporation which includes the audited consolidated financial statements for the year ended 31st December, 1980 and the unaudited statement of changes in financial position for the 1981 first quarterly period ended 31st March.

A SUMMARY OF CORPORATE HIGHLIGHTS

The year 1980 was a particularly important milestone for your Corporation, recording the commencement of substantial definitive undertakings involving two separate gold mine projects — the underground exploration and development of the gold deposit in Stock Township, Ontario, and the mill construction and preparation for the 1981 scheduled production start-up of the Bachelor Lake Gold Mine in Lesueur Township, Quebec, by our 55% owned subsidiary, Bachelor Lake Gold Mines Inc.

The \$11.7 million financing to fund these two significant gold mine projects was completed in two stages, during March and June, respectively, in 1980.

It is noteworthy that this financing — entirely by equity — has sheltered the projects from the enormous burden of record debt servicing costs currently prevailing that alternative financing methods would have entailed. With both of those projects now well advanced towards their objectives, it is contemplated that they will be completed on schedule and within budget.

The published financial statements of Bachelor Lake Gold Mines Inc. for the nine months ended 31st December, 1980, show project expenditures totalling \$2.3 million and working capital at the end of that period of \$7.8 million. The total project cost to completion is estimated at \$9.2

million including a contingency allowance of 10% over actual budgeted cost estimates.

The ongoing capital expenditures to project completion, including the 10% contingency allowance, is currently estimated at \$6.9 million. The principal items of main equipment have been ordered and are essentially within previous cost estimates.

The foregoing indicates a favourable margin between the remaining expenditures to production and the working capital position. In any event, the financing arrangements provided for the borrowing of up to \$500,000 from The Coniagas Mines, Limited, a substantial shareholder of the parent Quebec Sturgeon River Mines Limited, before exercising the elective right to borrow a further sum of up to \$1 million from a Canadian chartered bank. These arrangements are in place.

BACHELOR LAKE PROJECT, QUEBEC

On completion of the \$10.5 million production financing in June, 1980, construction and installation of the 500 tons/day mining and milling complex began.

Construction Program

The surface plant at the mine property will include a crushing plant, a mill with a conventional cyanide circuit capable of handling 500 tons per day, a hoist and compressor house and a nearby camp site with accommodation for upwards of 100 personnel. A new power line from Desmaraisville will connect with the 4,500 kw. main substation at the property.

During the summer and early fall, engineering design work for the milling complex was completed, concurrent with the commencement

of rock excavation for site preparation, rehabilitation of access roads and removal of the former shaft headframe and hoist house. Critical items of major equipment were ordered with delivery to coordinate with the construction progress.

Minexpert Inc. was awarded the contract to undertake the environmental impact study and obtain the necessary permits required prior to mine operations.

Concrete work for the shaft collar, hoist and compressor building and equipment foundations, the substation, ore bins, building and main crushing equipment foundations, progressed almost continuously throughout the winter months, notwithstanding some extreme weather conditions which necessitated some interruptions during December and January.

Erection of the new 100-ft. shaft headframe commenced in late October together with the installation of the main electrical power substation and transformers. Electrical power for light and heat adequate for the requirements during the construction phase was available in November with connections to the mine and camp sites.

Concrete foundations for the jaw crusher, cone crusher and crusher house were completed during December. During January and February, foundations for the main 1250 ton fine ore bin, both ball mills, coarse ore and waste bin were poured. By the end of March nearly all of the basic foundation pouring had been completed and the pouring of the perimeter wall supporting the mill building is now essentially completed with steel erection and partial enclosure with steel cladding expected by mid-July.

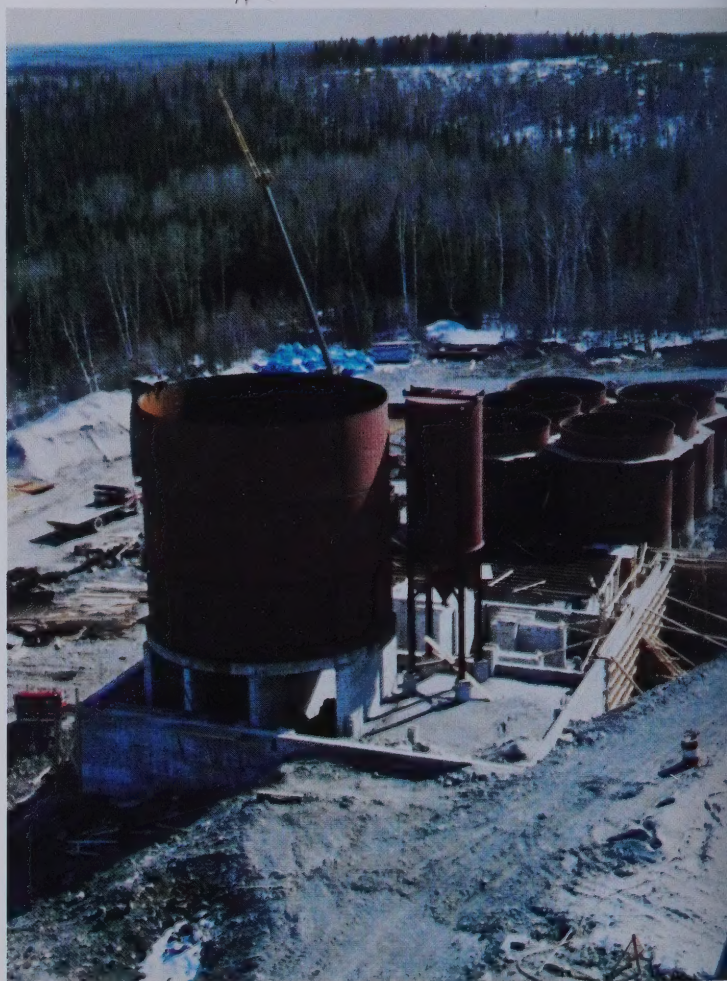
Other items now completed include 95,000 gallon water tank, and the building containing three compressors and hoist. The primary and secondary ball mills are now on the site, the cone crusher and dust filter system installed and a new 24-ft. by 62-ft. steel building has been purchased for use as a warehouse with foundation work in progress and construction scheduled to follow.

Steel galleries for the three ore conveyors have been erected; steel erection and cladding installation is now under way at the transfer building together with steel for the ore and waste bins. Similar progress has been achieved on all



Above: The main 4,500 Kw power substation, Bachelor Lake Gold Mine In Lesueur Twp.

Below: The 1250 ton fine ore bin shown in foreground with solution tanks the rear, installed on concrete foundation within the perimeter of the mill building.





These pictures at the Bachelor Lake Gold Mine, Lesueur Twp. were taken during April, 1981. **Above:** The steel galleries for the three ore conveyors are shown during erection with partial cladding.

Below: This view shows the ore conveyor galleries in the background and the 1,250-ton fine ore bin at centre left.



other construction items with completion of the entire milling complex now scheduled for the planned start-up of operations in late 1981.

Mining Preparations

Approximately \$4.2 million has been expended on the surface and underground development of the Bachelor Lake Gold Mine during a period of almost 20 years. In the early 60's a three-compartment shaft was sunk to a depth of 1,111 feet with seven level stations cut at 150 foot intervals starting with the first level 175 feet below the collar. Underground development at that time included 100 feet of drifting on the third level, and approximately 5,250 feet of core diamond drilling from the shaft stations on the first, second, fifth and sixth levels.

Present management undertook a program of additional surface and underground exploration during the period from 1972 to 1975 at a cost of approximately \$3.2 million which included the following:

Surface diamond drilling totalling 5,924 feet in 19 vertical holes.

A total of 8,046 feet of drifting and crosscutting and 2,451 feet of raising.

Underground definition core drilling amounting to 25,573 feet in 343 holes.

Excavation of an ore pass system, totalling 865 feet, between the second and sixth levels, plus 14 raises extending from surface to the 7th or present bottom level.

Almost all underground development required prior to stope preparation was completed before the project was placed on a care and maintenance basis in September of 1975 because of the declining gold price — a yearly average of US\$155 — and the resultant effect on financing conditions and projected diminishing profit margins at the then prevailing bullion price levels.

Ore Reserves

Estimated ore reserves total 967,000 tons grading 0.195 oz. of gold per ton, including dilution of 10%. Approximately 90% of total reserves are in the proven and probable category.

These reserves are available within the developed level areas of the mine and adequate

for capacity operations for approximately six years. There is excellent and as yet virtually untested potential for significantly increasing reserves both at depth and laterally by repeating structures. A number of ore grade intersections have been obtained in areas east and west of the presently delineated mine area and two holes drilled in 1975 returned ore values at the 1,215 foot elevation, 140 feet below the 7th level.

In fact, only 1,000 feet of a potential strike length of some 3,000 feet has been partially explored, with underground work done almost exclusively to prove up the reserves above the 7th level to enable initial production planning.

The mineable widths vary from approximately 7.3 feet over a strike length of 385 feet on a portion of the 6th level to a width of 40 feet over a strike length of 200 feet on the 2nd level.

Milling Characteristics

Detailed metallurgical test work was carried out on numerous representative samples from underground workings. These mill tests show the ore is free milling with expected recoveries of 95% or better using conventional methods.

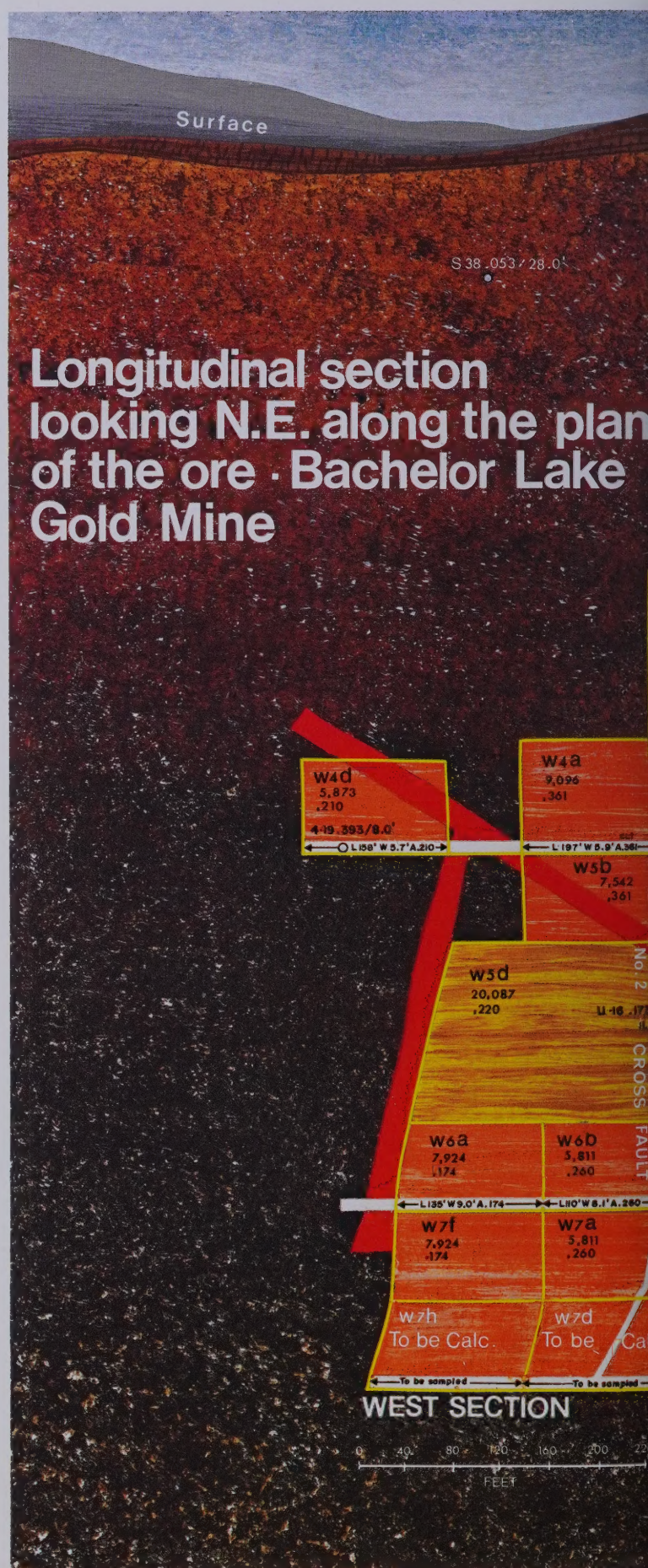
Mining Operations

The 500 ton per day capacity mill under construction will be operated seven days a week for a throughput of 3,500 tons per week. All mining is to be done by a contracting firm, operating two shifts per day on a five day week basis.

The ore will be mined using conventional underground methods. Sublevel blasthole stoping with trackless equipment will be used in the upper, wider ore sections of the mine. In the lower sections, shrinkage mining with track equipment will be employed.

Direct operating costs, which are based on labour, materials and supplies in January 1981 dollars, are estimated at \$35.13 per ton, after allowing a 10% contingency. These costs are applicable to capacity operations at 500 tons daily. Also included in the mining costs is an exploration and development charge.

Dewatering of the shaft and preparation of the mine for production is anticipated to commence





Above: General view of the main mill building during March, 1981 at the Bachelor Lake Gold Mine.

Below: This is a more recent and high angle view of construction at the site of the Bachelor Lake Gold Mine.



during June. This will enable the delivery of ore to the mill during the fourth quarter of 1981.

Personnel

Recruitment of senior staff is proceeding and a mine manager, mine engineer and mine accountant plus others have been taken on staff. During April, five additional 20-man bunk house trailers were added, providing accommodation for approximately 110 persons including the requirements for the contractor's crew.

STOCK TOWNSHIP PROJECT, ONTARIO

During March, 1980, your Corporation obtained separate financing of approximately \$1.2 million, through private placement of treasury shares, to enable the reinstatement of the underground program in Stock Township, Timmins area, Ontario.

Following surface preparations, including the closing in of the shaft headframe, installation of an ore bin and other requirements, shaft sinking was resumed in November, 1980. At the time this program was suspended in 1975, the shaft had been sunk to a depth of 57 feet from surface. By year end 1980, the shaft had reached 105 feet and in late April, 1981 was completed at its initial objective depth of 270 feet below surface and a level station had been cut at the 200 foot horizon.

Sinking of the shaft was behind schedule for a number of reasons, among them being the extremely cold weather in December-January, which had not been anticipated. However, the principal factor was that the shaft had been sunk in a shear zone, the presence of which was not indicated in the customary shaft pilot diamond drill hole. The long axis of the shaft was also oriented in the direction of the shearing, thereby compounding the difficulties experienced in the shaft sinking.

With the shaft at its initial objective depth of 270 feet, an ore storage raise has been driven from 15 feet above the bottom of the shaft to the first level at 200 feet. Drifting and crosscutting commenced during May, 1981 and it will take approximately three months to complete the total advance of about 1,200 feet. On completion, a program of underground diamond drilling, consisting of from 6,000 to 7,000 feet, will be

done from this (1st) level to delineate the orebody to at least the 350 foot level.

Background to this undertaking derives from the program of acquisition of an assemblage of properties by purchase, lease and, in fortunate circumstance, by staking of open ground. This holding, now totalling approximately 2,710 acres or the equivalent of 68 mining claims, in Stock and Taylor Townships, Timmins area, Ontario, was accumulated at a cost of \$278,602.

The putting-together of this assemblage was initiated in 1972 with the underlying purpose of investigating the presence of the Porcupine-Destor Fault, an important geological structure that is associated with gold deposits throughout a distance of some 80 miles extending from west of Timmins, Ontario, to Destor, Quebec. This particular area in Stock and Taylor Townships has a history of long-retained properties and is currently being explored by well known major resource organizations.

The reconnaissance surface drilling program by your Corporation began in January, 1973, using two machines. Early encouragement was obtained in Stock Township, Lot 7, Con. 1, and led to a detailed drilling program in that location.

The program comprised 49 drill holes totalling about 25,000 feet, and it encountered gold-bearing mineralization along an east-west trending strike length of 2,200 feet. The concentration of drilling was in the central 700 feet of strike length (confined to this portion because of comparatively shallow overburden in an area where it varies up to 180 feet) indicating a zone containing 700,000 tons with an average cut grade of 0.14 oz. of gold per ton.

The indicated tonnage appears to be flat-lying and lies between bedrock and a tested depth of some 350 feet from surface. The true thickness of this central portion of more detailed drilling is indicated to average in excess of 40 feet. It has not been delimited either as to continuity to depth and throughout the strike length tested where numerous intersections were obtained.

In 1974, instead of continuing with the more closely spaced and costly drilling through overburden, it was judged that an underground program was justified in order to correlate the

PLAN AND SECTIONS SHOWING PROGRESS OF UNDERGROUND DEVELOPMENT - 200' LEVEL

Quebec
Sturgeon River
mines limited



The above plan and section drawing depicts both the current progress and scheduled underground work at the Stock Two minesite, Timmins area, Ontario. The central artwork is a top side view with various sections showing X-cuts for drill stations where flat and angle diamond drilling will probe the lateral and vertical geometry of the gold-bearing mineralized ore body to at least the 350 ft. level.



An aerial view looking almost due south at the Stock Twp., Timmins area, showing the general layout of the mine buildings.



A ground level view of the scene above. During the 1980 program, the headframe was clad and ore bin installed. The 2,500 Kw main power substation is partially shown at right in front of the 40 ft. by 123 ft. building housing the hoist-compressor-heating plant and mine dry facilities.

drill results and to assess more accurately the potential of the mineralized zone.

The program of shaft sinking which commenced in 1974-75 with the foregoing objectives, was terminated due to the temporarily depressed gold price and the related difficult financing conditions.

A total of \$1.6 million was expended in the 1974-75 period of the program which also included the construction of a mile-long access road from the main Highway 101 to the shaft site, installation of a 2,500 KVA substation connecting to a 27.5 KV primary power line installed by Ontario Hydro.

Because of the depth of overburden, the shaft, measuring 23 ft. by 10 ft., was driven within a rectangle of steel piling driven to a depth of 45 feet, and the first 12 feet of sinking was completed with a concrete ring poured to secure the bottom of the piling and to seal the walls of the shaft.

Concurrent with the driving of the steel piling for the shaft, construction of mine buildings commenced and was completed early in 1975. The mining plant consists of a 40 ft. by 123 ft. steel Armco service building housing the hoist-compressor-heating plant. A second 40 ft. by 102 ft. steel Armco building housing the main offices, warehouse and machine shop, was also installed.

In addition, a 90 ft. headframe for the three-compartment shaft was erected and all foundations for surface ore bins and waste bins poured. An 80 ft. water tank was erected and a deep well completed to service the mine and plant with water. The buildings and equipment were kept in good condition during the period of closure.

During 1980, the program in Stock Township was designated eligible under the Ontario Mineral Exploration Program Act (O.M.E.P.) and qualified for a grant of \$47,000. The program of underground drilling will be carried out during the summer months of 1981.

OTHER GOLD INTERESTS OF THE CORPORATION

Pursuant to an agreement effective from January, 1979, your Corporation and its presently



The picture above was taken during May, 1981, showing construction progress at the minesite, Bachelor Lake Gold Mine, Lesueur Twp., Quebec. The lower picture shows the contrast in progress, about one month earlier.



substantially owned U.K. subsidiary, **Anglo Canada Exploration (Ace) Limited**, entered into an agreement with **Anglo Dominion Gold Exploration Limited** with respect to the Prospecting Licence for gold and silver covering a 14-square mile area (8,961 acres) in the vicinity of the Ogofau Gold Mines, Central Wales, U.K.

Under the agreement, Anglo Dominion undertook to advance, as ACE requires; in the aggregate the sum of \$100,000 within two years of the date of the agreement, to be expended in exploration on the Prospecting Licence, entitling it to subscribe for shares of ACE to the extent of one third of the then issued shares of ACE. Anglo Dominion then has the contingent right to make additional advances to ACE in two stages of \$150,000 and \$250,000, respectively, each within two year periods, and, if it exercises both options, be the owner of 50% of the then issued shares of ACE.

Anglo Dominion has now made advances totalling \$222,239 including \$146,045 advanced in 1980 to fund a program of diamond drilling consisting of 3,000 feet in 10 holes which tested in two areas. An additional drilling program has been recommended.

Your Corporation also owns 760,000 shares of **Phoenix Gold Mines Limited** which holds title to the Sturgeon River Gold Mine in the Beardmore area, District of Thunder Bay, Ontario. Phoenix plans to conduct an evaluation of this property during the year, possibly with the view of resuming exploration.

SPECIAL RESOLUTION

At the forthcoming Annual and General Meeting, shareholders will be asked to consider a special resolution passed by the Directors, increasing the authorized capital of the Corporation from 8,000,000 shares to 10,000,000 shares. Management has no present plan to issue any of the newly authorized shares.

GENERAL

Management is especially gratified with the excellent progress achieved in the advancement of the Bachelor Lake Gold Mine project towards scheduled production in late 1981, and the

present program at the Stock Township gold property which will lead to the early commencement of a substantial program of underground diamond drilling. This program will provide confirmatory data of the surface drill-indicated tonnage and grade, and assist in the planning of future level development.

These two projects mark the culmination of many years of patient effort based on confidence in gold and its inevitable restoration as the world's leading reserve asset. This is clearly demonstrated by the growing participation of the central banks, governments and leading international financial institutions in reinforcing the historic attributes of this metal as the ultimate store of value and economic security at a time when paper currencies continue to be ravaged by double digit inflation and spiralling interest rates.

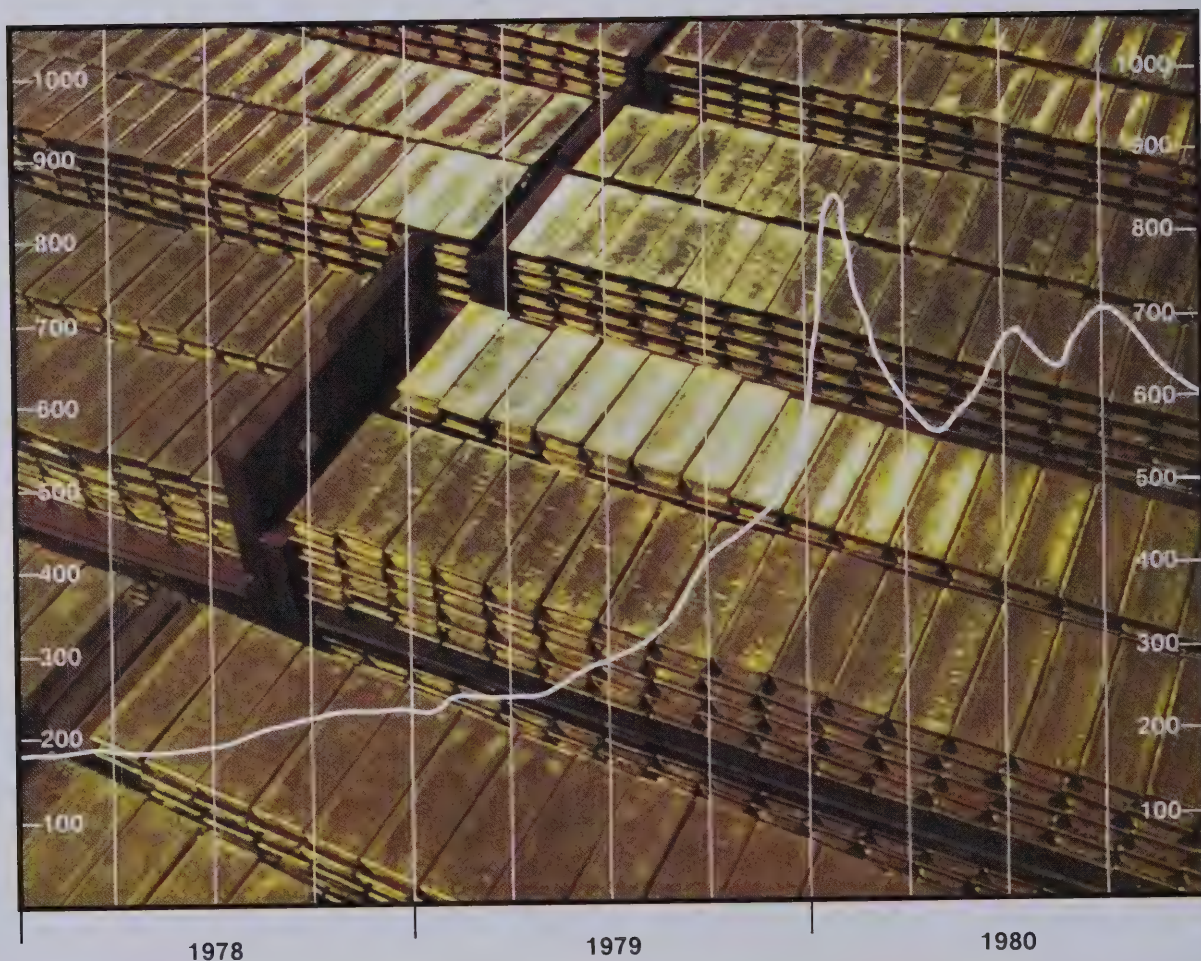
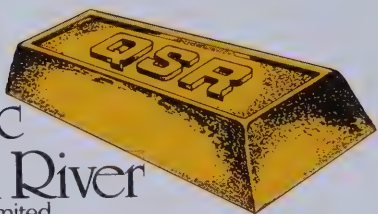
The steady and sustained uptrend in gold prices, even though punctuated by speculative excesses and equally irrational contradictory assaults by those nations endeavouring to maintain a facade to their respective weak currencies, is statistically measured in the annual advance in the median price of this metal to progressive levels of strength.

The successive increases on a yearly average price basis from \$125 per troy ounce in 1976, \$148 in 1977, \$193 in 1978, \$307 in 1979 and the 1980 average price of \$612 an ounce in U.S. dollars (which in terms of the Canadian dollar equates to well over \$700 per ounce) shows a consolidating pattern pointing to future prices that will exceed the rate of inflation.

Your Corporation together with almost two dozen Canadian gold mining enterprises have collectively committed nearly \$600 million to new capital projects in the development of new gold mines and in the expansion of existing ones throughout Canada. The year 1980 was clearly the period of great capital commitment in North America to new gold mining undertakings.

A SPECIAL TRIBUTE

O. A. Seeber, your Corporation's Vice-President of Exploration (and also a senior officer of other affiliated corporations) was singled out for the Dr. A. O. Dufresne Award of the Canadian Institute of Mining and Metallurgy, the fourth person to be so selected as the annual winner of this distinctive



GOLD PRICE

Gold prices charted from the weekly average on the London Bullion Market, quoted in U.S. Dollars.

*Six year table of
annual average gold price
— U.S. Dollars.*

*Yearly average prices,
1975 — \$155 per troy oz.
1976 — \$125 per troy oz.
1977 — \$148 per troy oz.
1978 — \$193 per troy oz.
1979 — \$307 per troy oz.
1980 — \$612 per troy oz.*

award since its presentation was initiated in 1978. Mr. Seeber was presented the award at the Institute's Annual General Meeting in Calgary, Alberta, 6th May, 1981.

The award was in appreciation of Mr. Seeber's ongoing active role in the Canadian mineral resource field throughout a distinguished career spanning more than 40 years. The citation stated the tribute was: "In recognition of his exceptional abilities in the mining industry in the discovery, development and production of various mines across Canada and for the moral, financial and technical assistance shown to aspiring geologists and mining engineers".

Past winners of the Dr. A. O. Dufresne Award, in chronological order, were Dr. Come Carbonneau, Chairman, Department of Geology, Faculty of Sciences and Engineering, Laval University, Quebec, and Chairman of the Board, Bachelor Lake Gold Mines Inc., and the founding President of Quebec Government-sponsored SOQUEM prior to joining Laval University in 1977 as Professor of Mineral Resources.

The 1979 award winner was Albert A. Koffman and the most recent, in 1980, Dr. Walter Holyk, who, until his retirement in 1976, was Senior Vice-President of Texasgulf Inc.

Mr. Seeber's curriculum vitae, and those of the other key persons comprising your Corporation's technical staff, are set out on page 16 of this Annual Report.

ACKNOWLEDGEMENT

The Directors and Management acknowledge the efforts and competence of all those participating in the current projects; the engineering, mining and geological consultants, contractors, suppliers, various governmental representatives and, most importantly, our technical staff and all employees for their combined and co-ordinated contributions in all areas of corporate activity throughout the past year.

Respectfully submitted,

The Board of Directors

19th May, 1981



A general aerial view of the Stock Twp. Gold Mine looking to the northwest, showing 40 ft. by 102 ft. service building at lower left, the 40 ft. by 123 ft. hoist-compressor building centre right and the 90 ft. shaft headframe (since closed in). This mining plant and other facilities were constructed at a cost of \$1.6 million.

PROFILE OF TECHNICAL STAFF

ORVILLE A. SEEBER — Vice-President, Exploration

Mr. O. A. Seeber, the Company's Vice-President of Exploration, is a graduate (Geology and Mineralogy) of Queen's University in 1937, initially joining Falconbridge Nickel Mines Limited as a geologist and from 1945-1954 was Chief Field Geologist for this major company, subsequently retained as Chief Geologist with the M. J. Boylen Engineering Offices for some 16 years and immediately prior to joining the Coniagas-Quebec Sturgeon Group as Vice-President of Exploration in 1972 was similarly retained by Northgate Exploration Limited.

HARRY MICHIE — Chief Geologist

Mr. Harry Michie is Scottish-born, graduating from St. Andrew's University with a B.Sc. degree in geology. His entire professional career has been in Canadian Gold Mining, initially with Hollinger Cons. Gold Mines Limited as Mines Geologist from 1951-67 after which he was Chief Geologist with Aunor Gold Mines Limited, later in a similar capacity when the operations of Aunor, Pamour and Hallnor were utilized. This association with the Noranda Group of Companies spanned a five year period prior to joining Québec Sturgeon River Mines Limited as Chief Geologist in 1972.

PERCY J. McCARTHY — Manager of Mines

Mr. Percy J. McCarthy, the Company's Manager of Mines, studied mining engineering at the Haileybury School of Mines and at Queen's University prior to embarking on a career in various senior management capacities including mine manager, engineer and geologist with the Little Long Lac Organization. His entire experience has been in gold mining, essentially all of which were comparatively low grade mines emphasizing extraordinary efficiency and profitability despite the low gold price prevailing throughout most of the 27 year period of his career prior to joining Quebec Sturgeon River Mines Limited in 1974.

DOUGLAS BRYANT — Geologist (Stock Twp. Project)

Mr. Douglas Bryant was born January 11, 1945 in Levack, Ontario and graduated in 1970 from the Michigan Technological University, Houghton, Michigan, with a B.Sc. degree in Geology. Prior to graduation he took summer employment in 1968 with Franc. R. Joubin & Associates Limited, and the following year at New Imperial Mines Limited (since renamed Whitehorse Copper Mines Limited) in Yellowknife, NWT. Following graduation he spent three years in Australia, employed as geologist by Australian Development Limited at the Nob Mine, Tennant Creek, Northern Territories. Returning to Canada in 1974, he was employed as underground mine geologist at the Copper Rand Division, Chibougamau, Quebec, of Patino N.V., prior to joining Quebec Sturgeon River Mines Limited in late 1974.



Financial Statements

For the year ended 31st December 1980

AUDITORS' REPORT

To the Shareholders,
Quebec Sturgeon River Mines Limited.

We have examined the consolidated balance sheet of Quebec Sturgeon River Mines Limited as at December 31, 1980 and the consolidated statements of deficit, deferred exploration expenditure and the changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
March 4, 1981.

Jarrett, Goold & Elliott
Chartered Accountants

QUEBEC STURGEON RIVER MINES LIMITED

(Incorporated under Laws of Ontario)

Consolidated Balance Sheet

DECEMBER 31, 1980

ASSETS	1980	1979
CURRENT ASSETS		
Cash	\$ 8,965,788	\$ 64,440
Accounts receivable	77,355	15,659
Inventory of surplus equipment, at cost		68,000
Prepaid expense and deposits	12,956	7,294
	<u>9,056,099</u>	<u>155,393</u>
 INVESTMENT IN OTHER COMPANIES (note 2)	 4	 5
 MINING PROPERTIES (note 3)	 463,701	 451,201
 FIXED ASSETS (note 4)	 2,969,186	 1,060,522
 DEFERRED EXPENDITURE		
Exploration	5,875,850	5,232,148
Hydro deposit	147,716	65,128
Discount on convertible debentures	241,492	241,492
Incorporation and financing expenses	971,714	
	<u>7,236,772</u>	<u>5,538,768</u>
	 <u>\$19,725,762</u>	 <u>\$7,205,889</u>

LIABILITIES	1980	1979
CURRENT LIABILITIES		
Accounts payable	\$ 678,428	\$ 72,342
Loan from an associated company, secured		35,000
	<u>678,428</u>	<u>107,342</u>
EXPLORATION ADVANCES	222,239	76,194
CONVERTIBLE DEBENTURES (note 5)	1,610,000	1,610,000
MINORITY INTEREST	10,500,000	
 SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 6)		
Authorized — 8,000,000 shares without par value		
Issued — 6,261,275 shares (1979 — 5,916,275)	7,643,048	6,314,598
CONTRIBUTED SURPLUS	1,037,818	1,037,818
	<u>8,680,866</u>	<u>7,352,416</u>
DEFICIT	1,965,771	1,940,063
	<u>6,715,095</u>	<u>5,412,353</u>
 Approved by the Board:		
O. A. Seeber, Director		
J. H. Morlock, Director		
	<u>\$19,725,762</u>	<u>\$7,205,889</u>

Consolidated Statement of Deficit

FOR THE YEAR ENDED DECEMBER 31, 1980

	1980	1979
BALANCE, BEGINNING OF YEAR	\$ 1,940,063	\$1,907,256
Administration expense	35,707	32,807
Gain on sale of investments	9,999	
BALANCE, END OF YEAR	\$ 1,965,771	\$1,940,063

Consolidated Statement of Deferred Exploration Expenditure

FOR THE YEAR ENDED DECEMBER 31, 1980

	1980	1979
Bachelor Lake Project (including maintenance expenditure)	\$ 185,203	\$ 85,760
Townships of Taylor and Stock (including maintenance expenditure) . . .	337,176	41,072
United Kingdom Project	121,323	54,488
Total expenditure	643,702	181,320
Balance, beginning of year	5,232,148	5,050,828
	\$ 5,875,850	\$5,232,148

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1980

	1980	1979
SOURCE OF WORKING CAPITAL		
Issue of 345,000 shares (1979 — 100,000 shares)	\$ 1,328,450	\$ 136,000
Proceeds of sale of investments	10,000	
Exploration Advance-Anglo Dominion Gold Exploration Limited, Welsh Project	146,045	76,194
Minority interest in subsidiary arising from issued shares of Bachelor Lake Gold Mines Inc.	10,500,000	
	<u>11,984,495</u>	<u>212,194</u>
USE OF WORKING CAPITAL		
Exploration expenditure	643,702	181,320
Hydro deposit	82,588	
Administration expense	35,707	32,807
Increase in costs of mining properties	12,500	
Incorporation and financing expenses	971,714	
Purchase of fixed assets	1,908,664	9,906
	<u>3,654,875</u>	<u>224,033</u>
INCREASE (DECREASE) IN WORKING CAPITAL	8,329,620	(11,839)
WORKING CAPITAL, BEGINNING OF YEAR	48,051	59,890
WORKING CAPITAL, END OF YEAR	\$ 8,377,671	\$ 48,051
COMPONENTS OF WORKING CAPITAL		
Current assets	\$ 9,056,099	\$ 155,393
Current liabilities	678,428	107,342
	<u>\$ 8,377,671</u>	<u>\$ 48,051</u>

Notes to Consolidated Financial Statements

December 31, 1980

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the following subsidiary companies:

<u>Name of company</u>	<u>Date acquired</u>	<u>Ownership</u>
Anglo-Canadian Exploration (ACE) Limited	April 2, '73	100%
Anglo-Canadian Exploration (ACE) Limited was incorporated under the laws of United Kingdom.		
Bachelor Lake Gold Mines Inc.	March 7, '80	55%
Bachelor Lake Gold Mines Inc. was incorporated on March 7, 1980 under the laws of the Province of Quebec.		

During March, 1980 the Company acquired the mining properties and fixed assets at Bachelor Lake, Quebec for 3,666,666 shares valued by the directors at \$3.50 per share. Pursuant to an underwriting agreement dated May 20, 1980 the Company issued 3,000,000 shares for \$10,500,000 cash.

(b) Mining properties and deferred exploration

The Company records its mining properties at cost and defers the cost of exploration expenditure and carries them as assets until such time as they are written off against production from the property to which they apply or until all claims within the area are sold or otherwise disposed of.

(c) Fixed assets

Fixed assets are carried at cost. No depreciation is provided on fixed assets until such time as the mining properties are brought into production.

(d) Discount on debentures

The Company will amortize the discount on the debentures over their term simultaneously with the accrual for interest (note 5).

(e) Translation of foreign currency

Current assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Other assets and liabilities are translated into Canadian dollars at historical rates of exchange. Operations are translated into Canadian dollars at the average rate of exchange during the year.

2. INVESTMENT IN OTHER MINING COMPANIES

<u>Shares</u>	<u>1980</u>	<u>1979</u>
760,000 shares, Phoenix Gold Mines Limited	\$ 1	\$ 1
2 shares, Coniagas Research Inc.	1	1
294,938 shares, Beauce Placer Mining Company Ltd.	1	1
375,000 shares, Millstream Mines Limited	—	1
Notes receivable		
\$175,000 5% unsecured, deferred, subordinated notes of Beauce Placer Mining Company Limited	1	1
	<u>\$ 4</u>	<u>\$ 5</u>

The cost of these investments was reduced to a nominal value in prior years.

3. MINING PROPERTIES

1 mining concession (15.96 hectares) and 18 development licences (701.86 hectares) in the Bachelor Lake Area, Lesueur Township, District of Abitibi East, Quebec	\$185,099
2,710 acres acquired by purchase and lease in the District of Cochrane, Townships of Stock and Taylor, Porcupine and Larder Lake Mining Divisions, Ontario	\$278,602
1 prospecting licence covering 8,962 acres in the Ogofau Area, Central Wales, United Kingdom	
	<u>\$463,701</u>

Pursuant to an agreement effective as of January 1, 1979, the Company and its wholly-owned subsidiary, Anglo Canadian Exploration (ACE) Limited entered into an exploration agreement on the subsidiary's mining property with Anglo Dominion Gold Exploration Limited (formerly Nudulama Mines Limited).

The agreement provides that, inter alia, Anglo Dominion will advance funds to ACE to carry out an exploration programme. Upon advancing to ACE \$100,000, Anglo Dominion will be entitled to subscribe for at One Pound Sterling per share, 50 fully paid shares of ACE. The agreement makes further provision whereby Anglo Dominion may elect to make further advances of not less than \$150,000 within two years after the initial expenditure and a further \$250,000 within a further two year period thereafter. In each case after such expenditure, Anglo Dominion will be entitled to subscribe for a further 25 shares at One Pound Sterling per share and will, if it exercises both options, be the owner of 50% of the outstanding shares of ACE. Thereafter, the agreement provides, either the Company or Anglo Dominion may cause ACE to carry out further programmes and if the other party does not wish to participate the party advancing funds will be entitled to subscribe for and ACE shall issue at the price of One Pound Sterling per share one share for each \$10,000 advanced.

4. FIXED ASSETS

Equipment, structures and roads	<u>\$2,969,186</u>
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5. CONVERTIBLE DEBENTURES

Authorized

\$2,500,000 to be issued in series ranking pari passu as to security.

Issued

- (a) \$1,500,000 10% subordinated convertible series A debentures, at a discount of \$224,992 to mature January 1, 1983. These debentures are convertible into common shares at any time at \$2 per share for a total of 750,000 common shares without par value. Interest accrues or becomes payable commencing the earlier of the date of maturity or the commencement of commercial production. A bonus of 225 common shares per each \$1,000 principal amount of debentures is to be issued for the period up to June 1, 1981. For the interest period June 2, 1981 to December 1, 1982, a maximum of 45 shares for \$1,000 of principal amount of the debenture is to be issued.
- (b) \$110,000 10% subordinated convertible series B debentures at a discount of \$16,500 to mature May 1, 1983. These debentures are convertible into common shares at any time at \$2 per share for a total of 55,000 common shares without par value. Interest accrues or becomes payable commencing the earlier of the date of maturity or the commencement of commercial production. A bonus of 250 common shares per each \$1,000 principal amount of debentures is to be issued for the period up to November 1, 1981. For the interest period November 2, 1981 to May 1, 1983, a maximum of 45 shares for \$1,000 of principal amount of the debenture is to be issued.

There is a provision for principal prepayments at a premium based on a reducing scale from 1% per annum to no premium subsequent to 1980, but the Company will covenant not to repay more than 25% of the principal within five years from the date of issue.

6. SHARE CAPITAL

- (a) During the year ended December 31, 1980 the Company issued 345,000 shares for \$1,328,450 cash, including 55,000 shares issued for \$133,650 cash under employee options.
- (b) 805,000 unissued shares have been reserved for the convertible debentures referred to in note 5 and a further 437,450 unissued treasury shares have been reserved for the bonuses referred to in note 5.

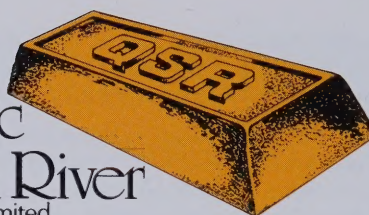
7. VALUES

The costs of mining properties, fixed assets and deferred exploration expenditure do not necessarily reflect present or future values.

8. DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

The aggregate remuneration paid to the five senior officers of the Company and its subsidiaries during 1980 was \$51,727 (1979 — \$14,400).

Quebec
Sturgeon River
mines limited



EXECUTIVE OFFICE
166 Pearl Street,
Toronto, Ontario
M5H 1L3

**CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION**

for the three month period ended March 31, 1981

(Unaudited)

	<u>1981</u>	<u>1980</u>
	March 31	March 31
Source of Working Capital		
Exploration advance — Anglo Dominion Gold Exploration Limited — Welsh project .	\$ 10,000	\$ 9,302
Issue of 309,500 shares . . .	—	1,242,184
Interest income	323,375	12,174
	<u>\$ 333,375</u>	<u>\$1,263,660</u>
Use of Working Capital		
Exploration expenditure . . .	630,051	49,708
Administration expense . . .	51,888	23,660
Purchase of fixed assets . . .	1,666,783	
Hydro deposit		59,800
	<u>\$ 2,348,722</u>	<u>\$ 133,168</u>
(Decrease) Increase in Working Capital	(2,015,347)	1,130,492
Working Capital — beginning of period	8,377,671	48,051
Working Capital — end of period	<u>\$ 6,362,324</u>	<u>\$1,178,543</u>

